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UNCLAS HARARE 000079

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EMIN ZI ENGR
SUBJECT: Top Coal Exec Throws in Towel

Sensitive but unclassified.

¶1. (SBU) Summary: Dominant coal producer Wankie suffers from an acute lack of foreign exchange that could ultimately hamper Zimbabwe's energy output. Top-of-the-line Caterpillar haulers and Bucyrus-Erie Draglines sit idle due to the costliness of imported parts. Meanwhile, the GOZ insists that Wankie sell coal at a loss to the country's largest power station. Outgoing Managing Director Kudzai Bwerinofa told us the GOZ's unworkable policies have prompted him to take early retirement. End Summary.

A 100-year old firm struggles

¶2. (U) Even outside the context of Zimbabwe's modest US$ 4 billion (and shrinking) economy, Wankie passes as a serious enterprise. The mining firm is the supplier of coal to Hwange Power Station, which generates 60 percent of Zimbabwe's energy, as well as smaller thermal stations in Harare, Bulawayo and Munyati. It trades on Johannesburg, London and Harare equity exchanges. After independence, the GOZ believed so strongly in Wankie's role that it acquired a 39 percent stake.

¶3. (SBU) Given the GOZ's minority ownership, it is ironic that public policy is running Wanke into the ground. Managing Director Bwerinofa, a 20-year company veteran, told us he cannot bear to administer a firm that has become a hopeless case. He is retiring 3-4 years ahead of schedule. The GOZ began to cap the price Wanke may charge domestic customers for coal about a year ago -- at a level below cost. So the company has been losing money domestically but managed to stay afloat through export profits. For Bwerinofa, the 2003 budget, which forces Wanke to surrender up to 100 percent of export earnings for exchange at the official rate (nearly 1/30 of the market rate), was the final blow. Wanke no longer has foreign exchange to buy parts for expensive machinery. Only 3 of 10 haulers, 4 of 12 dump trucks, 2 of 4 rope shovels, 1 of 3 front-end loaders and 61 of 84 vehicles were operational when we visited. Admirably, opencast operations are still running at 80 percent of capacity. Without backup support, however, Bwerinofa says production will continue to drop.

Logistics hurdles

¶4. (SBU) But Wanke's headaches do not stop there. As one of Zimbabwe's largest fuel consumers, Wanke has been hit hard by the shortage. Due to the National Railway of Zimbabwe's (NRZ) deterioration, however, Wanke must now transport most coal by road. NRZ is providing only one-third the daily wagons that Wanke requires. Road rather than rail transport to Harare doubles the cost of coal.

Comment

¶5. (SBU) Like many companies in Zimbabwe, Wanke is now operating within government-imposed constraints that guarantee it will lose money. The best management can accomplish is slow the depletion of shareholder assets and hope Wanke is still viable when policies change. The consequences of Wanke's potential demise are more damaging than a run-of-the-mill business, since it supplies the critical input for most of Zimbabwe's energy (and stockpiles a mere 2-day reserve). If there is a shortage of coal, parastatal ZESA will have to import electricity or limit services.

Sullivan